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SUBJECT: FRANCE-RUSSIA MISTRAL CLASS SHIP SALE: VIEW FROM THE SHIPYARD

Ref. Paris 01529

Classified by Econ Minister Counselor Seth Winnick for reasons 1.4 (B) and (D).

¶11. (SBU) This message is based on reporting by American Presence Post Rennes.

¶12. (C) Summary. Observers in the French shipbuilding industry (strictly protect) provided background information on prospects for the sale of Mistral-class helicopter carrier/amphibious assault ships to Russia. They believe Russian navy officials have little confidence in their own shipyards and have turned to France for technology transfer for modernization. Prime Minister Vladimir Putin announced in his recent visit to Paris that no decision has been made to buy the French assault ships but that it is under formal review along with other potential suppliers. President Sarkozy has publicly committed to finding new clients for French shipyards to save jobs. The Mistral sale would help the STX shipyard and help President Sarkozy make good on his promise. End Summary.

The French amphibious assault ship Mistral

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¶13. (SBU) Construction of the third Mistral-class helicopter carrier/amphibious assault vessel (known in French as "le Bateau de Projection et de Commandement - BPC") began recently at the STX shipyard in Saint Nazaire, near Nantes in Northwestern France. While STX provides the "brawn" for the construction of this ship, French warship builder DCNS (Direction des Constructions Navales - Services) is providing the "brains," i.e. the design and research specifications as well as engineering and weaponry that went into the first two ships built in the program: the Tonnerre (2005) and the Mistral (2006). The Mistral-class is the second largest type in the French navy. BPC3, the third ship in Mistral class, is expected to be completed in 2012.

Selling to Russia, what is on the table?

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¶14. (C) Observers in the French shipbuilding industry believe that the Russian Government intends to acquire five ships in the Mistral class, with the first one to be built at STX in Saint Nazaire and the remainder in Russian shipyards. The price would be 500 million euros for the first vessel. Russia has asked for a manufacturing license for the four remaining ships which would be built in Russian yards. Industry sources speculate that DCNS and STX would together receive a 100 million euro fee for the licensing agreement. Most of APP Rennes' working-level contacts at DCNS and STX (in Nantes, Saint Nazaire and Lorient) have gone from skepticism last summer to near-certainty, now, that this deal will go through (though one DCNS engineer persists in believing that the whole deal will fall through at the last minute, having experienced long delays with a DCNS corvette program in Bulgaria).

¶15. (SBU) For the first vessel, STX plans to provide a completed hull including decks, living quarters and mechanical systems and propulsion. However, APP Rennes' contacts think the electronics

could conceivably be designed and installed by the Russians. If there is any weaponry installed aboard the Russian ship while it is in France, DCNS would normally be responsible for its installation. During his November 27 visit to Paris, Russian Prime Minister Vladimir Putin confirmed the GOR has made a formal request to the GOF for a possible purchase of French Mistral ships but no decision has been made and other potential sellers of assault ships were being considered.

Why buy French warships?

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¶ 6. (C) French shipbuilders said that Russian Navy officials have little confidence in the Russian shipbuilding industry. They think that only a technology transfer can modernize their shipyards. Shipyard contacts were unable to give a timetable for construction but speculated that details could follow Prime Minister Putin's November 27 visit to France and the November 24 St. Petersburg port call by the Mistral.

Implications for French Industry

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¶ 7. (C) STX is specialized in cruise ship building. Although military shipbuilding is holding its own in the midst of the current economic downturn, orders for cruise ships have plummeted worldwide. STX has two cruise ships under construction and no other orders in sight. The BPC currently under construction only requires 20 percent of the Saint Nazaire shipyard's production capacity. The yard is therefore desperate for more orders and is pushing the GOF to sign the contract with the Russians, all the more so since French Defense Minister Herve Morin has already announced that the French navy would

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not order a fourth ship in the Mistral-class program.

¶ 8. (C) Another major backer of the Russian contract is DCNS Director Patrick Boissier, who once headed STX. Boissier's move to the post of DCNS director was a decision of the French Government, which owns 75% of DCNS shares (the remaining 25% belongs to French defense contractor Thales which has an option to increase its stake by 10%). The French Government may intend that DCNS should one day take over STX. The construction of the Mistral-class at STX has leveraged an industrial partnership between the two shipbuilders.

¶ 9. (C) Note: French government took an equity share in STX when Norway shipbuilding Aker Yards sold out to the Korean STX company. It is worth noting that the French Government has used economic stimulus money to purchase the third BPC vessel. The project will mainly benefit STX, since DCNS is only going to supply the combat system of the BPC3 project.

¶ 10. (C) Comment: The Mistral sale would help the STX shipyard and help President Sarkozy make good on his promise last year to find new clients for the distressed shipbuilding sector and to save jobs. The potential sale of French Mistral-class ships to Russia has raised concerns amongst Russia's neighbors in the Caucasus and Baltics (reftel). Post defers to military analysts for an assessment on the potential improvements in Russian capabilities by adding the vessel type to the Russian fleet.

RIVKIN